

# Beyond the GAAP

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Mazars' newsletter on accounting standards



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## Editorial

The end of the year is approaching rapidly!

This means it is time for us to provide our yearly overview of the small number of standards and amendments that are mandatory for the 2015 financial period, as well as those for which early application is permitted.

The big changes in IFRS are not expected until 2018 or later (IFRS 9, IFRS 15 and IFRS 16). However, time is steadily ticking away, so we need to get ready now!

In this issue, we also discuss the proposed definition of a contract under the future IFRS 16, following the publication of an IASB staff document on the topic.

Wishing you all the best for the festive period!

Enjoy your reading!

Michel Barbet-Massin      Edouard Fossat

# IFRS Highlights

## Annual Improvements to IFRS 2014-2016 Cycle exposure draft

On 19 November 2015, the IASB published its exposure draft of the 2014-2016 cycle of annual improvements to IFRS. The ED proposes the following three narrow-scope amendments:

- IFRS 1 – *First-time Adoption of International Financial Reporting Standards*: Deletion of exemptions that are now obsolete;
- IFRS 12 – *Disclosure of Interests in Other Entities*: Clarification of the scope of IFRS 12. The disclosure requirements also apply to interests in entities that are classified as held for sale or distribution, or as discontinued operations in accordance with IFRS 5.
- IAS 28 – *Investments in Associates and Joint Ventures*: Clarification that a venture capital organisation may elect to measure an investment in an associate or joint venture at fair value through profit or loss, on an investment-by-investment basis, at initial recognition (i.e. this is not an accounting policy).

The exposure draft is open for comment until 17 February 2016 and can be accessed on the IASB's website via the following link:

<http://www.ifrs.org/Current-Projects/IASB-Projects/Annual-Improvements/Exposure-Draft-November-2015/Pages/Exposure-Draft-and-Comment-letters.aspx>

## Exposure draft published on transfers of investment property

On 19 November 2015, the IASB published an exposure draft that proposes amendments to IAS 40 – *Investment Property*. These limited-scope amendments are intended to clarify the guidance on transfers to, or from, investment properties.

The exposure draft is open for comment until 18 March 2016 and can be accessed on the IASB's website via the following link:

<http://www.ifrs.org/Current-Projects/IASB-Projects/Investment-Property-under-construct-inventory-investment-change-in-use/Exposure-Draft-November-2015/Pages/Exposure-Draft-and-Comment-letters.aspx>

# European Highlights

## Adoption of *Bearer Plants* amendments

On 23 November 2015, the European Commission adopted the amendments to IAS 16 – *Property, Plant and Equipment* and IAS 41 – *Agriculture*, entitled *Agriculture: Bearer Plants*. These amendments were published by the IASB on 30 June 2014.

Readers will remember that these amendments bring bearer plants into the scope of IAS 16, rather than IAS 41 as previously. 'Bearer plants' are those that are used to grow agricultural produce over several periods.

Bearer plants will thus now be accounted for in the same way as property, plant and equipment, using either the cost model or the revaluation model. Previously, they were measured at fair value less costs to sell under IAS 41.

Commission Regulation (EU) 2015/2113, which was published in the Official Journal of the European Union on 24 November 2015, stipulates that the mandatory effective date for these amendments shall be no later than the start of the first financial period commencing on or after 1 January 2016.

The regulation is available here:

<http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:32015R2113>

## Adoption of amendments to IFRS 11 on accounting for acquisitions of interests in joint operations

On 24 November 2015, the European Commission adopted the amendments to IFRS 11 – *Joint Arrangements*, entitled *Accounting for Acquisitions of Interests in Joint Operations*. These amendments were published by the IASB on 6 May 2014.

The amendments clarify the accounting for acquisitions of an interest in a joint operation when the operation constitutes a business as defined in IFRS 3 – *Business Combinations*. Basically, at the acquisition date of an interest in a joint operation, the buyer shall:

- measure identifiable assets and liabilities at fair value (PPA);
- recognise acquisition-related costs (e.g. fees paid to consultants and valuers) as expenses;
- recognise deferred tax assets and liabilities arising from initial recognition of assets and liabilities; and
- recognise as goodwill the excess of the consideration transferred over the fair value of the identifiable assets and liabilities acquired, and apply to it the requirements of IAS 36 on impairment testing of goodwill.

For more details, see our 'A Closer Look' feature in the May 2014 issue of *Beyond the GAAP*.

Commission Regulation (EU) 2015/2173, which was published in the Official Journal of the European Union on 25 November 2015, stipulates that the mandatory effective date for these amendments shall be no later than the start of the first financial period commencing on or after 1 January 2016.

The regulation is available here:

[http://eur-lex.europa.eu/legal-content/EN/TXT/?qid=1448439672676&uri=OJ:JOL\\_2015\\_307\\_R\\_0006](http://eur-lex.europa.eu/legal-content/EN/TXT/?qid=1448439672676&uri=OJ:JOL_2015_307_R_0006)

### Adoption of amendments to IAS 16 and IAS 38 on acceptable methods of depreciation and amortisation

On 2 December 2015, the European Commission adopted the amendments to IAS 16 – *Property, Plant and Equipment* and IAS 38 – *Intangible Assets*, entitled *Clarification of Acceptable Methods of Depreciation and Amortisation*. These amendments were published by the IASB on 12 May 2014.

Readers will remember that these amendments relate to methods of depreciation and amortisation based on revenue. They stipulate that:

- Depreciation methods based on revenue are not appropriate for property, plant and equipment;
- There is a rebuttable presumption that amortisation methods based on revenue are not appropriate for intangible assets.

Commission Regulation (EU) 2015/2231, which was published in the Official Journal of the European Union on 3 December 2015, stipulates that the mandatory effective date for these amendments shall be no later than the start of the first financial period commencing on or after 1 January 2016.

The regulation is available here:

<http://eur-lex.europa.eu/legal-content/EN/TXT/?qid=1450010564066&uri=CELEX:32015R2231>

### ESMA: 18<sup>th</sup> extract from database of enforcement decisions

On 25 November 2015, ESMA (European Securities and Markets Authority) published the 18th extract from its database of enforcement decisions on financial statements. The extract comprises ten decisions made by European enforcers, addressing the following issues:

- Presentation of licensed activities as discontinued operations (IFRS 5)
- Disclosures in interim financial statements (IAS 34)
- Disclosures on post-employment benefit plans (IAS 19)
- Going Concern disclosures (IAS 34 and IAS 1)
- Control of an entity without holding any equity interest (IFRS 10)
- De facto control (IFRS 10)
- Impairment of goodwill (IAS 36)
- Fair value measurement for fixed-rate loans (IFRS 13)
- Carrying amounts of a CGU to be tested for impairment (IAS 36)
- Presentation and disclosure of discontinued operations in separate financial statements (IFRS 5 and IAS 27)

The 18th extract from ESMA's database of enforcement decisions is available here:

[https://www.esma.europa.eu/sites/default/files/library/2015-1776\\_18th\\_extract\\_from\\_the\\_eecss\\_database\\_of\\_enforcement\\_0.pdf](https://www.esma.europa.eu/sites/default/files/library/2015-1776_18th_extract_from_the_eecss_database_of_enforcement_0.pdf)

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# A Closer Look

## Standards and interpretations applicable at 31 December 2015

Now that accounts are being finalised for 31 December 2015, Beyond the GAAP presents an overview of the IASB's most recent publications. For each text, we clarify whether it is mandatory for this closing of accounts, or whether early application is permitted, based on the EU endorsement status report (Position as at 3 December 2015):

[http://www.efrag.org/WebSites/UploadFolder/1/CMS/Files/Endorsement%20status%20report/EFRAG\\_Endorsement\\_Status\\_Report\\_3\\_December\\_2015.pdf](http://www.efrag.org/WebSites/UploadFolder/1/CMS/Files/Endorsement%20status%20report/EFRAG_Endorsement_Status_Report_3_December_2015.pdf)

As a reminder, the following principles govern the first application of the IASB's standards and interpretations:

- The IASB's draft standards cannot be applied as they do not form part of the published standards.
- The IFRS IC's draft interpretations may be applied if the two following conditions are met:
  - The draft does not conflict with currently applicable IFRSs;
  - The draft does not modify an existing interpretation which is currently mandatory.
- Standards published by the IASB but not yet adopted by the European Union may be applied if the European adoption process is completed before the date when the financial statements are authorised for issue by the relevant authority (i.e. usually the board of directors).

- Interpretations published by the IASB but not yet adopted by the European Union at the end of the reporting period may be applied unless they conflict with standards or interpretations currently applicable in Europe.

It should also be noted that the notes of an entity applying IFRSs must include the list of standards and interpretations published by the IASB but not yet effective that have not been early applied by the entity. In addition to this list, the entity must provide an estimate of the impact of the application of those standards and interpretations.

As relates to minor amendments and interpretations, it seems relevant to limit such list to only those amendments and/or interpretations which are likely to apply to the entity's activities.

### 1. Situation of European Union adoption process for standards and amendments published by the IASB

Standard	Subject	Effective date according to IASB	Date of publication in the Official Journal	Application status at 31 December 2015
<b>Annual improvements to IFRSs 2011-2013 Cycle</b>	Annual improvements to various Standards (issued on 12 December 2013)	<b>1/07/2014</b> Early application permitted	<b>19 December 2014</b> Effective for annual periods beginning on or after 1 January 2015	<b>Mandatory</b>
<b>Annual improvements to IFRSs 2010-2012 Cycle</b>	Annual improvements to various Standards (issued on 12 December 2013)	<b>1/07/2014</b> Early application permitted	<b>9 January 2015</b> Effective for annual periods beginning on or after 1 February 2015	<b>Permitted</b>
<b>Amendments to IAS 19</b>	Defined Benefit Plans: Employee Contributions (issued on 21 November 2013)	<b>1/07/2014</b> Early application permitted	<b>9 January 2015</b> Effective for annual periods beginning on or after 1 February 2015	<b>Permitted</b>
<b>Annual improvements to IFRSs 2012-2014 Cycle</b>	Annual improvements to various Standards (issued on 25 September 2014)	<b>1/01/2016</b> Early application permitted	<b>Awaiting endorsement by the EU</b> (expected in Q4 2015)	<b>Permitted <sup>(1)</sup></b>
<b>Amendments to IAS 16 and IAS 38</b>	Clarification of Acceptable Methods of Depreciation and Amortisation (issued on 12 May 2014)	<b>1/01/2016</b> Early application permitted (prospectively)	<b>3 December 2015</b> Effective for annual periods beginning on or after 1 January 2016	<b>Permitted <sup>(1)</sup></b>

(1) If the amendment is a clarification of an existing standard and is not in contradiction with current standards

## 1. Situation of European Union adoption process for standards and amendments published by the IASB (continued)

Standard	Subject	Effective date according to IASB	Date of publication in the Official Journal	Application status at 31 December 2015
IFRS 9	Financial Instruments	<b>1/01/2018</b> Early application permitted	<b>Awaiting endorsement by the EU</b> (expected in H1 2016)	<b>Not permitted</b>
IFRS 15	Revenue from contracts with Customers (issued on 28 May 2014) including amendments to IFRS 15: Effective date (issued on 11 September 2015)	<b>1/01/2018<sup>(*)</sup></b> Early application permitted	<b>Awaiting endorsement by the EU (*)</b> (expected in Q2 2016)	<b>Not permitted</b>
<b>Amendments to IAS 16 and IAS 41</b>	Bearer Plants (issued on 30 June 2014)	<b>1/01/2016</b> Early application permitted	<b>24 November 2015</b> Effective for annual periods beginning on or after 1 January 2016	<b>Permitted</b>
<b>Amendment to IAS 27</b>	Equity Method in Separate Financial Statements (issued on 12 August 2014)	<b>1/01/2016</b> Early application permitted	<b>Awaiting endorsement by the EU</b> (expected in Q4 2015)	<b>Not permitted</b>
<b>Amendments to IFRS 10, IFRS 12 and IAS 28</b>	Investment Entities: Applying the Consolidation Exception (issued on 18 December 2014)	<b>1/01/2016</b> Early application permitted	<b>Awaiting endorsement by the EU</b> (expected in Q2 2016)	<b>Permitted <sup>(1)</sup></b>
<b>Amendment to IAS 1</b>	Disclosure Initiative (issued on 18 December 2014)	<b>1/01/2016</b> Early application permitted	<b>Awaiting endorsement by the EU</b> (expected in Q4 2015)	<b>Permitted <sup>(1)</sup></b>
<b>Amendments to IFRS 10 and IAS 28</b>	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (issued on 11 September 2014)	<b>1/01/2016</b> (could be indefinitely deferred) Early application permitted	<b>Differed</b> (Waiting for an amendment to the effective date)	<b>Permitted <sup>(2)</sup></b>
<b>Amendments to IFRS 11</b>	Accounting for Acquisitions of Interests in Joint Operations (issued on 6 May 2014)	<b>1/01/2016</b> Early application permitted	<b>25 November 2015</b> Effective for annual periods beginning on or after 1 January 2016	<b>Permitted</b>
IFRS 14	IFRS 14 Regulatory Deferral Accounts (issued on 30 January 2014)	<b>1/01/2016</b> Early application permitted	<b>No endorsement</b> The EC has decided not to launch the endorsement process of this interim standard and to wait for the final standard	<b>Not permitted</b>

(\*) The IASB has deferred the effective date of IFRS 15 by one year (i.e. for annual reporting periods beginning on or after 1 January 2018).

(1) If the amendment is a clarification of an existing standard and is not in contradiction with current standards

(2) If the entity had not developed an accounting policy

## 2. Situation of European Union adoption process for interpretations published by the IFRS IC

Interpretation	Subject	Effective date according to IASB	Date of publication in the Official Journal	Application status at 31 December 2015
IFRIC 21	Levies (issued on 20 May 2013)	<b>1/01/2014</b> Early application permitted	<b>13 June 2014</b> Effective for annual periods beginning on or after 17 June 2014	<b>Mandatory</b>

# A Closer Look

## Definition of a lease under the future IFRS 16

The IASB has promised that the future *Leases* standard will be with us by the end of the year, or in early 2016 at the latest.

Ahead of publication of the new standard, the IASB staff published a Project Update in October, setting out the proposed new definition of a lease (<http://www.ifrs.org/Current-Projects/IASB-Projects/Leases/archive/Pages/Project-update-October-2015.aspx>).

This document is intended to help issuers prepare for the impacts of applying the new standard

Readers will remember that a similar document was published early this year, in February 2015.

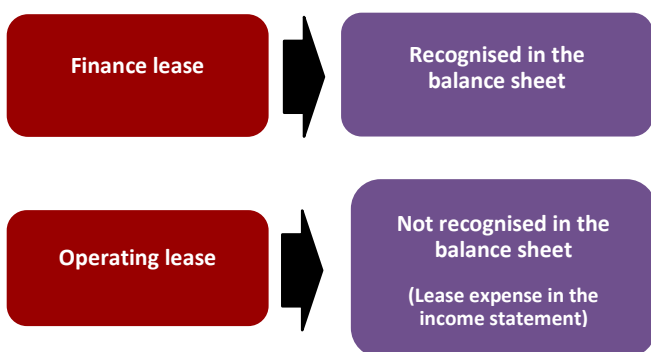
### 1) Why is the definition of a lease so important?

To begin with, it is important to remember that the current standard (IAS 17) distinguishes between two types of leases (finance leases and operating leases), each of which requires a different accounting treatment.

In the lessee's accounts:

- a finance lease is treated as if it were the purchase of an asset on credit, meaning that the lessee recognises an asset (the leased asset) and a related liability;
- an operating lease is recorded in the lessee's accounts as a lease expense. No entry is recorded in the balance sheet. Thus, operating leases are accounted for in a similar way to service contracts.

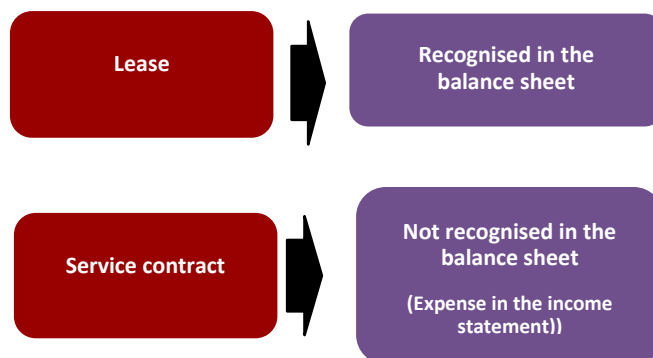
So, currently, the key issue in lease accounting is whether the lease should be classified as a finance lease or an operating lease.



The future leases standard will change this approach. Right from the outset, the IASB has favoured an approach which will require lessees to recognise all leases in the balance sheet.

Thus, in the lessee's accounts, there will no longer be any distinction between operating leases and finance leases. All leases will require recognition of a right-of-use asset and a related lease liability, i.e. a similar model to that used currently for finance leases.

The key accounting issue will actually arise earlier: lessees must decide whether the contract in question meets the definition of a lease or whether it is actually a service contract. The outcome of this decision will determine whether or not the lessee recognises the contract in the balance sheet:



### 2) What is the proposed new definition of a lease?

A lease is defined "as a contract, or part of a contract, that conveys to the customer the right to use an asset for a period of time in exchange for consideration"

Initially, this does not seem very different from the definition given in IAS 17. However, the Project Update sets out a number of indicators that will help to determine whether the contract fulfils this criterion.

Thus, a contract is a lease if both of the following conditions are met:

1. the contract involves the use of an **identified asset**; and
2. the contract conveys to the customer the **right to control the use of the identified asset**.

The concepts of an “identified asset” and “the right to control the use of the asset” are explained and illustrated with examples, which are expected to be included in the final standard. The definitions are somewhat different from those set out in interpretation IFRIC 4.

### 3) What is an identified asset?

An asset can be identified if:

- it is explicitly or implicitly specified in the contract; and
- it cannot be substituted by the supplier, as the supplier does not have the substantive right to substitute the asset:
  - because the supplier does not have the practical ability to substitute the asset; or
  - because the supplier does not have an economic incentive to substitute the asset (i.e. costs > benefits).

The illustrative examples describe situations in which a contract involves, or does not involve, the use of an identified asset.

### 4) What is the meaning of “the right to control the use of the identified asset”?

The contract conveys to the customer the right to control the use of the asset if:

- the customer obtains substantially all of the economic benefits from use of the identified asset throughout the period of use (e.g. by having exclusive use of the asset); and
- the customer directs the use of the identified asset for the duration of the contract.

The customer is considered to direct the use of the identified asset if:

- the customer has the right to make the relevant decisions about:
  - how the asset is used (i.e. the customer decides how the asset is to be used and the supplier cannot change these decisions); and
  - for what purpose the asset is used.
- or the relevant decisions are predetermined. In this situation, the customer directs the use of the asset if:
  - the customer has the right to operate the asset for the duration of the contract and the supplier cannot change these operating instructions; or
  - the asset has been designed by the customer in a way that predetermines how and for what purpose the asset will be used throughout the period of use.

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# Events and FAQ

## Frequently asked questions

### IFRS

- Sale of property with a commitment to carry out repairs and subsequent leaseback.
- Accounting treatment and analysis of “reservation rights”.
- Equity method – which type of statement?
- Treatment in the consolidated accounts of goodwill arising from a capital reduction offset against a sponsorship pledge
- Calculation of earnings per share following a stock issue with retention of preferential subscription rights.

## Upcoming meetings of the IASB, IFRS Interpretations Committee and EFRAG

IFRS		EFRAG	
IASB	Committee	Board	TEG
14-18 December	12-13 January	16 December	27-29 January
18-22 January	22-23 March	14 January	24-26 February
12-19 February	10-11 May	11 February	22-24 March

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